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December 28, 2005

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Request for Extended Calling Area from Bluffton/Sun City Hilton Head Area to
Hilton Head Island

PSC Docket No. 2005-204-C

Dear Mr. Terreni:

This letter is in regards to the Office of Regulatory Staff's report filed with the Commission on December 19, 2005. The original filing contained an assertion by ORS that certain revenue losses were not included. Since the time of this filing, ORS has been made aware of certain information included with Hargray Communication's investigation which shows these losses were included. Additionally, ORS located additional information in the investigation which showed the comparison of residential and business lines. As a result, ORS hereby files a revised version of its report.

Enclosed, please find the original plus fifteen copies of the redacted report and a Motion Requesting that Materials be Treated as Confidential. Additionally, in a separate envelope, ORS is submitting the original and fifteen copies of the complete, unredacted report which ORS requests to be filed under seal. Please date stamp the extra copy provided of each filing and return them with our courier.

Thank you for your assistance. Please let me know if you have any questions or if I can be of any further assistance.

Sincerely,

Benjamin P. Mustian

Enclosures

cc: Mr. Donald A. Cotnoir
Mr. Bob Labonte, Hargray Communications
Mr. John Bowen, Jr., Esquire

SERVICE

December 28, 2005
Columbia, South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2005-204-C

IN RE: Request for Extended Calling Area)	MOTION REQUESTING THAT
From Bluffton/Sun City to Hilton)	MATERIALS BE TREATED AS
Head Island)	CONFIDENTIAL

The Office of Regulatory Staff ("ORS") respectfully requests that the Public Service Commission of South Carolina ("Commission") treat the materials accompanying this motion as confidential. This motion is made on the following grounds:

1. The accompanying materials pursuant to Commission Order 2005-382 in which the Commission requested that ORS conduct an investigation into the reasonableness of establishing an extended calling area from the Bluffton/Sun City area to Hilton Head Island. As part of its investigation, ORS requested certain information from telecommunications companies operating in that area. The companies provided data and related backup documentation which they deem confidential as it contains information regarding the companies' respective operations. The companies believe, in light of the more competitive telecommunications environment, it is not appropriate to make detailed information regarding the companies' operations publicly available. Further, they assert that access to this information could give actual and potential competitors an unfair competitive advantage.

2. Similar data and backup documentation have previously been provided under seal to the Commission in Docket No. 1997-239-C, and the Commission has afforded such similar material confidential treatment. Thus, confidential treatment of the data and backup

documentation accompanying this motion is consistent with the Commission's prior rulings and prior treatment of similar information.

3. The accompanying materials are filed in a sealed envelope with each page marked "Confidential" in red ink.

WHEREFORE, the Office of Regulatory Staff respectfully requests that the Commission treat the accompanying materials as confidential.

OFFICE OF REGULATORY STAFF

By: 

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December 28, 2005

Bluffton to Hargray Extended Area Service

Pursuant to Commission Order No. 2005-382, the Public Service Commission of South Carolina instructed the Office of Regulatory Staff (ORS) to investigate the cost of providing Extended Area Service (EAS) from the Bluffton/ Sun City Hilton Head area to the Hilton Head Island area. In addition, the ORS was requested to offer alternatives for the Commission's consideration.

The companies most directly impacted by the provision of this requested Extended Area Service are Hargray Telephone Company and Bluffton Telephone Company which have common ownership and management. In response to the Commission Order, ORS sent a letter to the companies requesting cost and community of interest information associated with the proposed calling arrangement. To accomplish this task, Bluffton Telephone contracted with John Staurulakis, Inc. (JSI) to perform the requested study.

In preparation of this report, the ORS has reviewed a total of three studies. The first two studies were modified in response to questions for additional information from the ORS. ORS was subsequently notified of errors in the submitted reports and, as a result, a corrected study was submitted on December 5, 2005. Additionally, JSI submitted Community of Interest and cost information in response to the request of ORS. ORS also reviewed the current tariffs of Bluffton Telephone Company to determine the current availability of optional calling plans.

Bluffton Telephone offers two local dialing plans. One is a Measured Extended Area Service (MEAS) which provides, for the most part, a seven digit dialing arrangement to exchanges in the Savannah LATA. For calls originating from Bluffton, South Carolina, the calling scope associated with Measured Extended Area Service includes the following exchanges:

Hilton Head, SC	Hardeeville, SC	Savannah, GA
Pooler, GA	Tybee Island, GA	Beaufort, SC
St. Helena, SC	Laurel Bay, SC	Ridgeland, SC

An exception to the seven digit dialing arrangement is calling the 912 NPA in the Savannah Metropolitan area which requires ten-digit dialing. Specific subscription to this service is not required; however, when dialing these areas on a seven digit basis, the call is rated at four (4) cents per minute for the duration of the call.

In addition to MEAS, Bluffton Telephone Company offers an optional flat rate (unmeasured) calling plan. This plan, titled Expanded Flat Rate Service, provides unlimited calling from the Bluffton Exchange to the Hargray Telephone Company's exchanges. This plan is priced at \$10.00 per month per line for residential customers and \$20.00 per month per line for business customers. These monthly charges are in addition to the monthly charge for basic exchange services. For customers subscribing to this service and wishing to have detailed call information, there is an additional monthly charge for such service. Copies of the tariff pages describing the Expanded Flat Rate Service and the Measured Extended Area Service have been attached to this report for easy reference.

Generally, in the context of a request for review of EAS, costs associated with the implementation of EAS are comprised of two components. These costs are revenue losses to be realized by the company if the proposed EAS is implemented, and the costs associated with upgrading the company's network to handle stimulated call volumes associated with replacing optional calling and usage sensitive services with a usage insensitive unlimited calling arrangement. The December 5, 2005, study prepared by JSI reported projected annual costs of \$[REDACTED] to implement EAS in this area. This cost was comprised of revenue losses associated with switched access services, billing and collection services, and displaced revenues associated with its MEAS and optional Expanded Flat Rate Service. In addition, JSI included capital costs associated with upgrades of the network and annual costs associated with the preparation of the study. If the referenced costs were equally recovered from all residence and business customers on a monthly basis, the resulting monthly cost per access line would be \$[REDACTED]. However, this rate does not maintain the relationship between residential and business classes of service, where the business rate is two times the residential rate.

In its cover letter, the Bluffton Telephone Company reported that nearly [REDACTED] customers had subscribed to its optional Expanded Flat Rate Service. Bluffton further stated that it did not believe that the majority of its customers are willing to pay an additional \$[REDACTED] per month to have local calling to the Hargray exchanges considering it offers this service on an optional basis at \$10.00 per line per month for residential customers and \$20.00 per line per month for business customer, and only about one third of their customers subscribe. There are approximately [REDACTED] customers who do not subscribe to this optional calling plan.

In complying with the Commission's request for alternatives to EAS, ORS extended the opportunity to make such recommendations to Bluffton Telephone Company. To date, Bluffton Telephone Company has not suggested additional alternatives and, therefore, ORS is unable to make alternative recommendations.

As a result of this study, ORS makes the following recommendations:

1. The Office of Regulatory Staff recommends that the \$[REDACTED] cost per line be recalculated in order to maintain the relationship between the pricing of residential and business lines. Utilizing information provided by the Bluffton Telephone Company, ORS calculated the monthly incremental cost, based on June 2005 residential and business access line counts, to be \$[REDACTED] for residential access lines and \$[REDACTED] for business access lines.
2. While the Bluffton Telephone Company believes that the majority of its customers are unwilling to pay an additional \$[REDACTED] per month per access line for unlimited calling to the Hargray exchanges, the Office of Regulatory Staff's position is that the best determinant of the consumers' interest would be through the balloting of the Bluffton customers. ORS recommends that all Bluffton customers be balloted using the incremental cost for residence and business classes of service as calculated pursuant to the above recommendation to determine their interest in paying an additional monthly fee for expanding toll free calling to the Hargray exchanges. We feel such a ballot is in the public interest and will maintain the financial integrity of Bluffton Telephone Company.